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Prime Minister's schedule, January 30, 2008

NIKKEI (Page 2) (Full)
January 31, 2008

08:43

Met Secretary General Ibuki at the Kantei.

12:24

Met Deputy Chief Cabinet Secretary Futahashi at the Kantei.

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14:23

Met Lower House member Sanae Takaichi. Later, met LDP research commission on consumer issues chairman Noda, executive secretary Gotoda, and others, joined by Chief Cabinet Secretary Machimura.

15:44

Met Science and Technology Minister Kishida, Council for Science and Technology Policy member Masuo Aizawa, and others. Kishida stayed behind.

16:29

Met Economic and Fiscal Policy Minister Ota and others, joined by Assistant Deputy Chief Cabinet Secretary Saka. Ota stayed behind.

17:10

Met cabinet office's special advisor Okuda.

18:00

Attended a meeting of the Council for Science and Technology Policy. Later, met Beijing University Professor Yu Dan, with Upper House member Hiroyuki Arakawa present.

19:27

Returned to his official residence.

4) Stopgap bill withdrawn

NIKKEI (Top play) (Abridged)
January 31, 2008

The ruling and opposition parties agreed yesterday to reach a "certain conclusion" within the current fiscal year on how to handle the rate of provisional taxation on gasoline and other road-related tax revenues. The two blocs in the Diet will now try to find common ground over the provisional gas tax rate as encouraged by the leaders of the two Diet chambers. A bill revising the Special Taxation Measures Law to retain the provisional gas tax rate will clear the Diet within the current fiscal year, and the tax rate is highly likely to be extended beyond its March 31 expiry. The governing parties therefore see no need for their lawmaker-sponsored gas tax stopgap bill submitted to the Diet in an aim to extend the temporary gas tax rate until the end of May. The ruling coalition will withdraw the bill today.

The ruling coalition of the Liberal Democratic Party and New Komeito had threatened to push through the stopgap bill yesterday in the House of Representatives. Even if the House of Councillors refused to act, the ruling parties could have taken a second vote on it in the House of Representatives within 60 days—just before the current fiscal year ends—to extend the temporary gas tax rate up to the end of May. The ruling parties had intended to extend the tax rate

beyond its March 31 expiry.

However, it is also true that a fierce fight between the ruling and opposition parties was about to brew in the Diet and that the ruling and opposition parties feared public criticism. As a result, the ruling and opposition blocs apparently thought twice and chose to talk with each other right before taking a vote in a plenary sitting of the Diet's lower chamber.

The leaders of the Diet's lower and upper chambers yesterday met with representatives from the ruling and opposition parties and

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encouraged them to talk. Premised on this compromise proposal from the two top Diet leaders, the ruling and opposition parties agreed to reach a conclusion within the current fiscal year on how to handle the bill revising the Special Taxation Measures Law.

House of Representatives Speaker Yohei Kono met with secretaries general from the ruling and opposition parties. In the meeting, Kono said, "Reaching a certain conclusion means following the past practice of examining the budget and revenue bills in both houses of the Diet." After the meeting, Kono and House of Councillors President Satsuki Eda met the press and stated that reaching a conclusion is for the House of Councillors to decide on whether or not to approve of it within the current fiscal year. Within the current fiscal year, the House of Representatives can take a second vote with a majority of two-thirds even if the House of Councillors votes down the bill revising the Special Taxation Measures Law and other legislative measures. The ruling coalition therefore can prevent the provisional tax rate from expiring without a bridging measure.

5) Ruling and opposition camps call truce for the moment, allowing budget deliberations to return to normal; Next hurdle will be the appointment of Bank of Japan governor

TOKYO SHIMBUN (Page 2) (Excerpts)
January 31, 2008

With the ruling parties' withdrawal of the bridging bill that would have extended briefly the rate of the provisional taxes (including the gasoline tax), the Diet today will return to normal, with interpellations in the Upper House Budget Committee of the fiscal 2007 supplementary budget bill. The battle between the ruling and opposition camps over the special measures revision bill on taxes that includes the provision tax rates has only been put off, but for the time being, it appears that budget bill deliberations will proceed smoothly.

On the other hand, apart from budget deliberations, the issue of appointing a successor to Bank of Japan Governor Toshihiko Fukui, whose term comes to an end in March, will reach a climax in late February. Appointments of this nature require the approval of the Upper House. For the government, obtaining such approval will be "a difficult case," as Chief Cabinet Secretary Machimura has said.

6) Fukuda administration averts "March crisis," receives praise from market for agreement between ruling and opposition blocs

YOMIURI (Page 2) (Abridged)
January 31, 2008

The battle between the ruling and opposition parties over the provisional tax rate for gasoline was brought to a conclusion yesterday by the good offices of the Lower House speaker and the Upper House president. The Diet will return to normal today. Now that a "March crisis" for the Fukuda administration is most likely to be averted, some in the ruling and opposition blocs indicate that dissolution of the Lower House for a snap general election will not occur before the Group of Eight summit in Lake Toya, Hokkaido in July (G8 Toyako Summit).

Diet will return to normal

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With the avoidance of a full showdown between the ruling and opposition parties, the Upper House will today hold a question-and-answer session to discuss the fiscal 2007 supplementary budget bill. The ruling bloc is becoming hopeful that debate on the fiscal 2008 budget bill, too, which is expected to be discussed from early February, will go smoothly.

The number of bills the government plans to submit to the current Diet session totals 78. Given the lopsided Diet where the ruling bloc controls the Lower House but the Upper House is under the opposition bloc's control, the government has reduced the number of bills to introduce in the Diet.

Except for the tax system-related bills, major bills are limited, for instance, a basic reform bill for the national government employees system (tentative name). Some outstanding problems, such as the inaccurate records of pension premium payments, still remain to be resolved, but a senior member of the ruling Liberal Democratic Party (LDP) commented: "The administration appears to be able to avoid a crisis until the G8 summit."

As for the selection of a successor to Bank of Japan Governor Fukui, which requires approval from the Diet, the government is likely to recommend someone sometime in February.

Debate on revisions

Following the agreement reached yesterday between the ruling and opposition parties, the focus of debate in the Diet will now shift to how to modify the tax system-related bills.

The major opposition Democratic Party of Japan (DPJ) is gearing up to continue to call on the government to lower the additional portion (25 yen) of the gasoline tax and incorporate the tax revenues for road projects into general revenues.

DPJ President Ozawa, speaking of the provisional tax rate for gasoline at a meeting yesterday of his party's general meeting of the Lower and Upper House Caucus members, stressed: "(Lowering the tax rate) would mean a tax cut for the general public."

A senior DPJ member gave this explanation about Ozawa's remarks: "A number of ideas are conceivable, for instance, lowering the additional portion by 20 yen instead of 25 yen. Revising would help the ruling parties, and on our part, as well, we can appeal to the public that we could lower the rate."

Japan can retain credibility

With the agreement reached yesterday between the ruling and opposition parties on the provisional tax rate for gasoline, it is highly likely that the expiration of that tax rate at the end of March will be averted. Confusion in the public's daily lives accordingly can be expected to be avoided.

Regarding the bill revising the Special Taxation Measures Law, which at one point seemed unlikely to be adopted before the end of this fiscal year, it contains an extension of the term of All Savers for the offshore market where banking institutions procure funds abroad and invest them abroad.

Speaking of the agreement between the ruling and opposition blocs,

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Takahide Kiuchi, a chief economist at Nomura Securities, said: "There was the fear that if the tax rate expired, the image of the Japanese market would worsen and that the flow of money from abroad to Japan could stop. We appreciate the settlement this time, in addition to an outlook that the budget bill will be approved by the end of this fiscal year."

7) Former LDP Secretary General Nakagawa: No chance the Lower House will be dissolved in April

MAINICHI (Page 5) (Full)
January 31, 2008

Hidenao Nakagawa, former secretary general of the ruling Liberal Democratic Party (LDP), delivered a speech at a Mainichi Shimbun-sponsored forum in Fukuoka. In it, Nakagawa stated:

"The Democratic Party of Japan (DPJ or Minshuto) has said that it will force the Prime Minister to dissolve the House of Representatives to call a snap election in April. But it is a lax way of thinking. Prime Minister Fukuda will never carry out such Lower House dissolution."

Referring also to the result of Sunday's Osaka gubernatorial election, in which Toru Hashimoto, whom the LDP Osaka chapter recommended, defeated the candidates backed by opposition parties, Nakagawa emphasized: "The DPJ should consider this the most recent will of the people."

8) Focus of attention in Tokyo G-7 likely on strengthening restrictions on rating of financial products

YOMIURI (Page 9) (Slightly abridged)
January 31, 2008

A meeting of Group of Seven (G-7) finance ministers and central bank governors will be held on Feb. 9 for the first time in Tokyo in eight years. Given that the global economy was sustaining stable growth in recent years, the G-7 has been drawing little attention. But the upcoming session in Tokyo will be held when financial markets across the world are volatile, triggered by the U.S. subprime mortgage crisis. World market players are closely watching what prescriptions the G-7 will present to deal with the subprime problem.

Finance Minister Nukaga, who will chair the G-7 in Tokyo, emphasized in a meeting of the House of Representatives Budget Committee on Jan. 28: "We must send a message to stabilize global markets and economies."

Prior to the meeting, the top leaders of four European countries urgently met on Jan. 29. This is quite unusual, showing their great expectations on the Tokyo G-7.

The subprime mortgage crisis originated in the U.S., and even leading financial institutions in Europe suffered huge losses. Since Japanese financial firms' losses are smaller than those in the U.S. and Europe, Nukaga, as the chair, will be required to play a mediatory role to iron out differences in their views.

Difference in views

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When it comes to discussion on specifics, however, it will not be easy to iron out differences. For instance, the focus of attention in the summit of four European countries was on ways of credit rating for financial products. In Europe, many analysts attribute the stock market volatility to rating agencies. They claim that agencies gave higher ratings to subprime loan-related products than their actual status and then lowered the rankings when the problem occurred, resulting in accelerating the market turmoil. A joint statement issued after the four-party summit also noted that the four European countries were ready to strengthen their regulations on rating agencies if such firms are found to have not fully disclosed information.

But major ranking agencies are mainly in the U.S. A U.S. financial authority said: "We are negative about new regulations on rating agencies. As it stands, there is a wide gap in views of Europe and the U.S."

The reinforcement of regulations on rating agencies is likely to be high on the agenda in the Tokyo G-7.

Coordination with emerging countries

Such emerging countries in East Asia as China and South Korea will also be invited to the Tokyo G-7. Reflecting the rise in the status of emerging powerhouses, the turmoil in the emerging markets, triggered by the subprime problem, will also have a negative effect on the Japanese, U.S. and European markets. As the U.S. and Europe have been calling on China to devalue its currency yuan, there is also the issue of the yuan. How to untangle such complicated problems facing the world is likely to be another challenge for the coming G-7 in Tokyo.

9) Financial anxieties to top agenda of G-7 agenda: Japan, U.S., Britain to propose environment fund

YOMIURI (Page 2) (Full)
January 31, 2008

The outline of topics of discussion at a meeting of finance ministers and central bank governors from the Group of Seven nations (G-7) to be held in Tokyo on February 9 was revealed yesterday. The main theme of the meeting is how to deal with uncertainties in the international financial market, including global stock plunges stemming from the subprime loan crisis. Participants will confer on ways to strengthen the financial supervisory system of their nations and how international rating firms, which have been pointed out as one factor that has caused the subprime loan crisis, should operate in rating credit.

The last G-7 hosted by Japan was held in January 2000. The meeting will become a venue for promoting cooperation on international financial affairs in the run-up to the Lake Toya Summit (G-8) in Hokkaido in July. The G-7 will also focus on environmental issues, which will take the center-stage of the G-8. Japan, the U.S. and Britain will propose setting up a fund to finance expenses for the transfers of environmental technologies from industrialized countries to developing countries.

10) Japan, U.S., Britain gearing up for establishing anti-global warming fund; World Bank likely to play major role

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ASAHI (Page 11) (Excerpts)
January 31, 2008

There is growing momentum in Japan, the United States, and Britain to establish an international fund with the aim of introducing clean energy in developing countries as a global warming countermeasure. The plan seems to be high on the agenda of the G7 finance ministers and central bank governors meeting to be held in Tokyo on Feb. 9.

On Jan. 28, U.S. President George W. Bush unveiled a plan to inject 2 billion dollars (approximately 200 billion yen) in what is called the International Clean Energy Technology Fund. Prime Minister Yasuo Fukuda, too, indicated on Jan. 26 that Japan will aim at establishing a fund to disseminate environmental technology across the world. Britain also plans to contribute hundreds of millions of pounds. A senior U.S. Treasury Department official expressed eagerness on Jan. 29 for establishing the fund before the end of the year.

Greenhouse gas emissions by developing countries are expected to increase sharply due to their economic growth. "There have been many cases in which advanced clean technology was not used due to a lack of funds," a U.S. Treasury Department official noted. According to an estimate, a shortfall of funds for developing countries total over 30 billion dollars (approximately 3 trillion yen).

The dominant plan is to determine how the fund should be used centering on the World Bank. The plan is to extend grant aid or

low-interest-rate loans to developing countries that want to import clean technology in power generation, transport, and production. The three countries are also considering a framework allowing the fund contributor to determine projects and its recipient while preserving bilateral nature. In order to encourage the self-help efforts of developing countries, there is a plan to let receiving countries to make due contributions to the fund.

11) Muto to become BOJ governor; DPJ likely to endorse his promotion

MAINICHI (Page 1) (Excerpts)
January 31, 2008

Final coordination is likely to be made to replace outgoing Bank of Japan Governor Toshihiko Fukui, 72, whose term expires on March 19, with BOJ Vice-Governor Toshiro Muto, 64. Amid growing economic concerns, the government and ruling parties have decided that Muto, who has been responsible for financial policy over the last five years as BOJ vice governor, is fit for the job. They are expected to propose Muto's appointment shortly to the Democratic Party of Japan and other opposition parties. The DPJ is expected to endorse the promotion of Muto, who is not only well-versed in financial policy but also has strong communication channels to the political and bureaucratic worlds.

Muto entered the former Finance Ministry after graduating from the University of Tokyo in 1966. Left the ministry in January 2003 after serving as administrative vice-finance minister; serving as BOJ vice governor since March 2003.

12) Subprime losses at 4 major banks expected to total 500 billion yen

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NIKKEI (Page 1) (Excerpts)
January 31, 2008

Japanese banks' losses related to U.S. subprime loan mortgages to low-income earners are increasing. Losses suffered by four banks of the six major banking groups are estimated to total 500 billion yen for the period ending March 31, 2008, due to a drop in value of securitized products. It will be an increase of 70 PERCENT from the 300 billion yen posted on the September interim report, announced in November 2007.

The four banks are Mizuho Financial Group Inc., Sumitomo Mitsui Financial Group Inc., Mitsubishi UFJ Financial Group Inc., and Sumitomo Trust & Banking Co. Mizuho and Mitsubishi UFJ will release their April-December 2007 business performance on Jan. 31.

Japanese banks invested primarily in highly rated securitized products. But ratings downgrades have cast a pall over the market, with prices plunging since November. The resulting turmoil has adversely affected other market segments not directly tied to these mortgages.

The losses suffered by the four banks are expected to reach a little less than 30 PERCENT of the consolidated net profit (1.9 trillion yen) for the current business period.

Mitsubishi UFJ is expected to report roughly 50 billion yen in subprime-related losses for the nine months ended Dec. 31. The figure could grow to some 90 billion yen for the full year through March.

The banking group logged 4 billion yen in such losses in the April-September half. In addition to 23 billion yen in valuation losses as of Oct. 31, the downgrade of an investment vehicle, in which the company invested 80 billion yen, is seen widening losses by tens of billions of yen.

Mizuho Securities Co.'s losses from related securitized products have also increased. Mizuho Corporate Bank faces several tens of

billions of yen in losses from its leveraged buyout financing operations in Europe. Group-wide subprime losses had been estimated at 170 billion yen for fiscal 2007, but the figure could hit 300 billion yen.

Sumitomo Trust yesterday reported 29.9 billion yen in related losses for the April-December period, up from 9 billion yen in the fiscal half year that ended Sept. 30. SMFG booked 99 billion yen in such losses over the same nine months. The figure had been estimated at 87 billion yen in November 2007.

13) CEFP private-sector members call for speeding up implementation of growth strategy to deal with deteriorating economic environment

ASAHI (Page 11) (Full)
January 31, 2008

Asahi Shimbun has learned that private-sector members of the government's Council on Economic and Fiscal Policy (CEFP) are calling on the Fukuda administration to speed up the implementation of its economic growth strategy. They will make this proposal at a CEFP meeting today. The administration plans to compile the envisaged growth strategy in the spring. However, those CEFP members

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have determined that the government needs to speed up the process due to the sea change in the economic situation triggered by the subprime loan crisis. As part of such efforts, they will urge concerned government agencies to tackle the issue, by listing specific measures they can implement before the spring.

Their targets include improving child-rearing services incorporated in the strategy to eliminate waiting lists for nursery schools, which Prime Minister Fukuda proposed in his policy speech, and boosting productivity of the services industry and small- and medium-sized businesses. The Financial Services Agency is aiming at implementing a financial and capital market competitiveness strengthening plan by the first half of 2009. Of proposals incorporated in that plan, private-sector members are calling for the implementation by this spring of the diversification of exchange-traded funds and inclusion of overseas real estate in real estate investment trust funds.

In addition, they have also pointed out proposals that should be immediately tackled once the growth strategy is mapped out. Such proposals include revising the way each company employee contributes premiums under the defined-contribution pension plan system, consolidating the environment for an increase in inward foreign direct investment, including a revision of takeover rules, and promoting the use of landing and departure slots late at night and early in the morning at Haneda Airport.

14) Fukuda to set up expert panel to give specificity to plan for new consumer administrative body

NIKKEI (Page 2) (Excerpt)
January 31, 2008

Prime Minister Yasuo Fukuda revealed his plan yesterday to set up in the Prime Minister's Office (Kantei) an expert panel tasked with discussing specifics of a new body to integrate administrative functions. He announced this idea in his policy speech on Jan. 18. Administrative functions are now split among various government offices, so they are expected to put up resistance. Given this, the prime minister judged it necessary to push ahead with the plan under the lead of the Kantei. He apparently is aiming to underscore his stance of giving priority to consumers.

15) Japan to back industrial development in Africa; Infrastructure construction planned by yen loans

SANKEI (Page 3) (Abridged)
January 31, 2008

Japan will use yen loans under its official development assistance

(ODA) in order to launch a new program of industrial development assistance to Africa. The government will announce a package of measures to increase assistance to Africa at the upcoming fourth Tokyo International Conference on African Development (TICAD) in Yokohama City in May. In an effort to put the economy on a growth track so as to reduce poverty, Japan aims to raise the general economic level of African countries by constructing socioeconomic infrastructure, an area Japan is good at.

As a centerpiece of the package, the government is considering providing 10 billion yen in yen loans for repair and expansion of the international highway Nacala Corridor that links Africa's

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southeastern country Mozambique to Malawi and Zambia. The Japan Bank for International Cooperation (JBIC) will hold a seminar for government officials in Mozambique's capital city of Maputo on Feb. 19 for the purpose of industrial development by using the corridor.

In addition to assistance in the area of road construction, Japan will also provide know-how necessary to invite private firms, for instance, construction of a comprehensive distribution network that will link between the corridor and the distribution base Nacala Port, establishment of a special economic zone and an industrial park, and improvement of the tax system.

The seminar will be joined also by Vietnamese government officials and its industrial park-affiliated officials so that the experience obtained from assistance to the construction of the East-West Corridor that spans the countries in the Mekong River area (Vietnam, Laos, Thailand, and Myanmar (Burma)) will be made well use of.

Last year Japan decided to provide 26.7 billion yen in yen loans to Africa for a port development project at Mombasa Port in Kenya and has assisted the project in the construction of infrastructure. A plan being floated now is to rehabilitate another international highway besides the Nacala Corridor.

Japan is advancing a strategic use of ODA, but its expansion of aid to Africa is also aimed at gaining support for its bid for a permanent seat on the United Nations Security, as well as bringing about a stable supply of strategic materials, such as rare metals.

16) Coordination underway for visit to Japan by Chinese foreign minister in March

MAINICHI (Page 5) (Full)
January 31, 2008

The Japanese and Chinese governments have launched coordination a visit to Japan by Chinese Foreign Minister Yang Jiechi in mid-March after the annual session of the National People's Congress. In a meeting with Foreign Minister Masahiko Koumura, Yang is expected to finalize the visit to Japan in the spring by President Hu Jintao, as well as to hold last-ditch negotiations to settle the dispute over exploration rights in the East China Sea gas fields. Prior to Yang's trip to Tokyo, Chinese State Councilor Tang Jiaxuan is expected to come to Tokyo probably on Feb. 20 to meet with Prime Minister Yasuo Fukuda and Koumura.

In the Japan-China summit in late last year, President Hu agreed to visit Japan around cherry-blossom time. The two governments have agreed to achieve an early resolution to the gas exploration issue. The planned visits to Japan by influential Chinese government officials appear to be an indication that the Chinese government has placed importance on the 30th anniversary of the Japan-China Friendship Treaty.

17) Defense Ministry to tighten checks of imported equipment prices

NIKKEI (Page 2) (Full)
January 31, 2008

The Defense Ministry's project team tasked with studying the procurement of defense equipment yesterday released a package of

measures to ensure fair procurement prices for equipment imported

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through trading companies. The package includes a measure to add a new provision to Defense Ministry contracts with trading firms that would have the ministry directly ask foreign equipment manufacturers for estimates. As another measure to strengthen the ministry's oversight, the package also proposes that trading firms be asked to present the prices of products and costs for technical support separately. The package also incorporates measures to beef up sanctions against padded bills.

18) Japanese-Australian foreign ministerial occurs today; Research whaling may become diplomatic issue; Cautious view in government prior to G8 summit

MAINICHI (Page 5) (Full)
January 31, 2008

There is a possibility that Japan's research whaling in the Southern Ocean will turn into a serious diplomatic issue with Australia. The expectation is that the whaling issue will be on the agenda in a meeting of Foreign Minister Masahiko Koumura and his Australian counterpart Stephen Smith, who will arrive in Tokyo today. Environmental activists from Australia and other countries have attempted to disrupt Japan's research whaling. It is difficult to find a breakthrough strategy because of cultural differences.

Prime Minister Yasuo Fukuda criticized antiwhaling protests by environmental groups in a plenary session on Jan. 23 of the House of Councillors: He stated: "Research whaling is a legal activity on the high seas. Interference endangers those involved, and it is an unforgivable and illegal act."

Komura, who held talks on Jan. 22 with Australian Trade Minister Simon Crean, underscored: "An agreement has been reached on the point that efforts should be made so that the issue will not have a negative impact on a relationship between the two countries." However since U.S. and European media have repeatedly broadcasted the video images showing bleeding whales, Japanese embassies overseas and the Fisheries Agency have received a spate of protests.

Of the membership of 78 countries of the International Whaling Commission (IWC), 42 are against whaling and 36 favor it. Japan has made efforts to expand support for whaling. The Japanese government plans to seek an IWC interim meeting in March for calm discussion, not emotional argument, which will lead to resource management based on scientific data, according to a senior Foreign Ministry official.

With the Group of Eight summit at Lake Toya in Hokkaido coming up in July, however, there is a view in the government that since major countries consider whales a symbol of environmental protection, the national interests Japan will lose are too serious, compared to the merits of keeping whaling culture.

SCHIEFFER